

**MISSISSIPPI STATE DEPARTMENT OF HEALTH
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
FEBRUARY 2009**

**CON REVIEW: HG-RLS-1208-045
ST. DOMINIC-JACKSON MEMORIAL HOSPITAL, INC.
RELOCATION OF 71 ACUTE CARE HOSPITAL BEDS AND CONSTRUCTION OF A HEALTH
CARE FACILITY AND MEDICAL OFFICE BUILDING IN MADISON COUNTY
CAPITAL EXPENDITURE: \$121,590,696
LOCATION: MADISON, MADISON COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

St. Dominic-Jackson Memorial Hospital (St. Dominic) is a 535-bed short term, acute care, general referral hospital governed by an 18-member Board of Directors. The facility is licensed to operate 417 medical/surgical beds, 35 adult chemical dependency beds and 83 adult psychiatric beds. St. Dominic, a not-for-profit Mississippi corporation, is accredited by the Joint Commission on the Accreditation of Healthcare Organizations, and licensed by the Mississippi State Department of Health (MSDH).

The occupancy rates, average lengths of stay (ALOS), and the Medicaid utilization rates for St. Dominic medical/surgical beds are as follows for the years 2005 through 2007:

**St. Dominic-Jackson Memorial Hospital
Utilization Data**

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
2005	58.80	4.47	12.70
2006	57.14	4.48	13.60
2007	65.48	4.54	16.72

Source: Division of Health Facilities Licensure and Certification, MSDH.

B. Project Description

St. Dominic-Jackson Memorial Hospital is requesting Certificate of Need (CON) authority for the relocation of a portion of a health care facility to include 71 acute care hospital beds together with necessary equipment, staff, and services, and construction of a medical office building in Madison County, Mississippi.

The project entails the following components:

- Component I: Construction of a 177,631 square foot facility in the city of Madison, Madison County, currently owned by St. Dominic Health Services, Inc. This component involves the relocation of 65 licensed and operational general acute care beds and related ancillary and support services associated with general acute care services. The facility, to be located at the northeast quadrant of the intersection of Interstate Highway 55 and the Reunion Interchange, will operate under the same license and provider numbers as St. Dominic. Specific services to be provided include: Level IV emergency room, including medical and surgical specialists, psychiatric and chemical dependency coverage; inpatient and outpatient surgery and endoscopy; imaging services including CT scans, mammography, ultrasound, and conventional radiology; physical therapy; station for emergency medical service vehicles and personnel. The information technology at the Madison Campus will provide broadband linkage to the Jackson campus and to physician specialists for admissions, finance, human resources, materials management, laboratory, radiology and pathology.
- Component II: The capital expenditure to build approximately 60,000 square feet of medical office space.
- Component III: The institution of mobile magnetic resonance imaging (MRI) services at the Madison campus. This component will only require the construction of a pad, covered walkway and electrical connections adjacent to Component I. St. Dominic currently owns and operates a mobile MRI unit that currently serves the Jackson campus. No additional MRI equipment will be purchased.
- Component IV: Capital expenditure of more than \$2 million to institute Level I obstetrical and neonatal services at the Madison campus. This component will require an additional 13,433 square feet of space to house an antepartum observation area, a dedicated Caesarian section procedure room, six licensed Labor Delivery Recovery Postpartum (LDRP) beds and a well-baby nursery with unlicensed bassinets. This module also involves the relocation of six licensed and operational general acute care beds from St. Dominic.

According to the applicant, Components II through IV are completely modular and will not be completed unless Component I is approved.

Some design and technology features planned for the Madison Campus include the following:

- The proposed medical/surgical unit will have a large central care station and recessed corridor work alcoves. There will potentially be a corridor work alcove for each four patient rooms.

- The labor and delivery unit will have a large central care station at one end of the unit to provide visibility of families and visitors exiting the public elevators in addition to visibility and back-up for the nursery.
- The pharmacy will be designed and located near the medical/surgical nursing units, which will allow for the speedy delivery of medications to the patients.
- Corridors will have indirect lighting in the ceilings so that a patient on a stretcher does not have to look into the lights as they are transported down the corridors.
- With the exception of the emergency department, services will have a single registration point. This provides less confusion and opportunities for getting lost in the facility.
- The facility will be designed to use the most up-to-date medical equipment housed in appropriately sized rooms.
- There will be isolation rooms designed on patient units to isolate infectious patients.
- There will be concealed security monitors in the final development and design at the main lobby reception desk with numerous cameras both inside and around the grounds of the campus.
- There will be data ports in each patient room for all patients, their families, and their caregivers. Potentially, there will be a nursing/physician locator system to indicate where the staff is at all times, while in the building.

St. Dominic expects that on January 1, 2013, the emergency department, the obstetrical department and some number of medical surgical beds will immediately be opened and staffed primarily with persons already on the St. Dominic payroll. The applicant projects a total of 351.6 additional FTE personnel at a cost of \$2,421,309 the first year after completion of this project.

The applicant cites the following purposes and final objectives for the project:

1. Increase operational general acute care capacity to meet increased demand. The applicant admits that it currently has 355 operational and staffed beds.
2. Maintain a safe, efficient, and technologically modern hospital.
3. Accomplish the first two objectives cost-effectively.
4. Increase patient satisfaction.
5. Improve geographic access.

St. Dominic submits that the project does no harm as it does not reduce the scope of services available at the Jackson campus nor does it reduce the financial feasibility of the Madison County Medical Center replacement facility.

The total proposed capital expenditure of \$121,590,696 will be financed with a commercial loan as well as a 20% cash contribution from St. Dominic Health Services.

According to the MSDH Division of Health Facilities Licensure and Certification, the site is acceptable for the intended use.

St. Dominic expects to obligate the capital expenditure immediately upon approval by the State Health Officer, possibly by December 31, 2010, and anticipates that the project will be complete by December 31, 2012.

II. TYPE OF REVIEW REQUIRED

The Mississippi State Department of Health reviews applications for the construction, development or other establishment of a new health care facility, relocation of a health care facility or portion thereof, or major medical equipment involving a capital expenditure in excess of \$2,000,000, and offering of magnetic resonance imaging services under the applicable statutory requirements of Section 41-7-173, 41-7-191 (1) (a), (b), (d)(xii), and (e), 41-7-193, and 41-7-195, Mississippi Code of 1972, as amended, and duly adopted rules, procedures, plans, criteria, and standards of the Mississippi State Department of Health.

In accordance with Section 41-7-197(2) of the Mississippi Code 1972, Annotated, as amended, any affected person may request a public hearing on this project within 20 days of publication of the staff analysis. The opportunity to request a hearing expires on March 10, 2009.

III. CONFORMANCE WITH THE STATE HEALTH PLAN AND OTHER ADOPTED CRITERIA AND STANDARDS

A. State Health Plan (SHP)

The *FY 2009 State Health Plan* contains criteria and standards which an applicant is required to meet prior to undertaking projects for the construction of a general acute care hospital, offering of mobile MRI services, and the offering of obstetrical services when the capital expenditure exceeds \$2,000,000.

Component I: Construction of a General Acute Care Hospital

Section 41-7-191 (1)(b) provides for “the relocation of a health care facility or portion thereof, or major medical equipment, unless such relocation of a health care facility or portion thereof, or major medical equipment, which does not involve capital expenditure by or on behalf of a health care facility, is within 5,280 feet from the main entrance of the health care facility.”

St. Dominic avers that the project is for the relocation of a portion of a health care facility (71 acute care beds) and construction of a medical office building in Madison County. It further argues that it does not contemplate the construction of a new health care facility since the 71 beds being relocated are licensed and staffed beds and that the facility will have the same license number as the St. Dominic Jackson campus.

Staff contends, however, that the project is the construction of a new health care facility in Madison County for the following reasons:

1. The term “relocation” has been defined by the Department as the moving of authority to provide services from one location to another. St. Dominic admits in its application that the Jackson campus will continue to provide all current services. No services are planned to be **eliminated or reduced** at the Jackson campus by the relocation of the 71 beds. Therefore, the project does not propose the “moving of authority to provide services” from Jackson to Madison, and therefore does not qualify as the “relocation of a health care facility or portion thereof.” The department finds that this project actually is an application for a new hospital in Madison County. (See St. Dominic-Jackson Memorial Hospital v. Madison County Medical Center, 928 So.2d 822 (Miss. 2006)).
2. The project involves the construction of a new 191,065 square foot structure to house the acute care beds being relocated from the Jackson facility along with the purchase of new equipment and hiring of new staff. The project is essentially a fully functional 65 to 71 bed hospital just as the currently existing hospital in Canton – Madison County Medical Center.
3. Construction is estimated to cost \$96,606,644 for a 65-bed hospital alone, at an estimated cost of \$410 per square foot. In addition, the applicant proposes to construct a 6-bed labor and delivery unit at a capital expenditure of \$7,877,775 or \$378 per square foot. The average cost of a 65-bed hospital listed in the 2009 Building Construction Cost Data, 67th Annual Edition ranged from \$13,942,500 (\$214,500/bed) to \$22,132,500 (\$340,000/bed). Therefore, the cost of the project is comparable to the cost of a new health care facility.
4. The project involves the establishment of acute care services in Madison County (although acute care services are not listed as new institutional health services requiring certificate of need, the capital expenditure to establish such services in excess of \$2,000,000 is reviewable). Also, the establishment of such services must accompany the establishment of a health care facility.
5. As a satellite facility, the Madison County facility will have the same license number as the Jackson facility, but each facility will have a “separate physical license” (See Singing River Hospital System v. Biloxi Regional Medical Center, 928 So. 2d 810 (Miss. 2006)). In addition, the satellite facility must comply with all licensure regulations, just as any other health care facility.

Consequently, the applicable criterion for this project is the criterion for the establishment of a new general acute care hospital in Madison County.

Madison County has one hospital, Madison County Medical Center; therefore, according to the State Health Plan, the formula used to determine the need for an additional hospital in a county with an existing hospital is applicable, as follows:

$$ADC + K(\sqrt{ADC})$$

Where: ADC = Average Daily Census
K = Confidence Factor of 2.57

According to the 2007 Report on Hospitals, Madison County Medical Center had an ADC of 21.58 in 2007. Based on the above formula, Madison County has a need of 33.5 beds. The county currently has 67 beds; therefore, the formula further suggests that there is an excess of 33.5 beds in the County. The Plan indicates that the MSDH may consider approval of a hospital with a maximum of 100 beds if the number of beds needed is 100 or more. Therefore, the applicant is not in compliance with this criterion.

St. Dominic submits that the project will not add new beds to General Hospital Service Area (GHSA) 3 and that the need for the project is documented in the institutional long-term plans adopted by the governing board of St. Dominic. The most recent plan document, according to the applicant, is the update of the 2007-2011 Strategic Plan adopted on November 20, 2008. A portion of the plan and a portion of the minutes of the board meeting adopting the updated Strategic Plan are included in the application.

The applicant further states that the project is addressed in its 2008 Master Facility Plan which represents the recommendation of consultant Hammes Company. The Master Facility Plan, according to the applicant, demonstrates that the proposed project is a less costly alternative to renovate and modernize the hospital to be able to operate all licensed general acute care beds. The application contains excerpts of relevant portions of its Master Facility Plan and additional analysis by Kevin Crook of Hammes Company.

The application indicates that the proposed project has been further analyzed by Ronald Luke, JD, PhD of Research & Planning Consultants, LP and has been reviewed and recommended by Pershing Yoakley & Associates, PC (PYA).

In addition, for projects which involve construction, renovation, or expansion of emergency department facilities, the applicant shall include a statement indicating whether the hospital will participate in the statewide trauma system and describe the level of participation, if any. The applicant submits that the same emergency medicine group that currently covers St. Dominic, Allied Emergency Physicians, will cover the emergency department at the Madison campus. The application contains a statement that the facility **will not** participate in the statewide trauma system.

SHP Criterion 2 – Charity/Indigent Care

St. Dominic affirms that it provides and will continue to provide a reasonable amount of indigent/charity care as described in Chapter I of the Plan. It further states that in 2006 and 2007, St. Dominic provided \$13,112,162 and \$17,624,558 in indigent/charity care which was 1.93% and 2.31% of total gross patient revenue, respectively.

Component II: Construction of a Medical Office Building

The Plan does not contain criteria and standards for the construction of a medical building; only the capital expenditure in excess of \$2,000,000 is reviewable.

Component III: Magnetic Resonance Imaging Services (MRI)

Need: The applicant submits that there are three MRI units located on St. Dominic's Jackson campus. Two of these units are fixed and one is mobile. According to the applicant, the mobile unit is a GE 1.5 Tesla LX Indigo and is mounted on a trailer. St. Dominic plans to acquire a third fixed MRI machine in 2009; however, the applicant does not expect the addition of this machine to reduce the average utilization of machines in the service area below 1,700 and will not reduce average utilization of machines controlled by St. Dominic below 2,700.

St. Dominic expects that the mobile MRI will be at the Madison Campus eight hours per week. As volumes increase at the Madison Campus, the applicant states that the hours per week may increase. The division of operating hours between the two campuses will be managed to assure that utilization of the unit does not fall below 1,700 MRI procedures per year. According to the applicant, the units performed 13,497 MRI procedures in 2007 for an average of 4,499 procedures per machine. The applicant projects to perform a total of 19,443 MRI procedures in 2014 at the Jackson and Madison campuses, due to population growth and with projected increases in St. Dominic's market share from Madison, Yazoo, Leake, Attala, and Holmes counties. The applicant expects that the mobile unit will perform more than 2,700 procedures in 2014 with 8 hours per week of operation at the Madison campus.

The applicant submits that in 2007 and the first 10 months of 2008, physicians on the St. Dominic medical staff ordered an annual average of 2,575 MRI scans performed at St. Dominic on patients from Madison, Yazoo, Leake, Attala, and Holmes counties.

St. Dominic states that its service area is a portion of GHSA 3 plus Holmes County. Using MRI statistics from GHSA 3 plus Holmes County, St. Dominic determined that there were 30.175 MRI machines in its service area in 2007, performing 77,212 MRI procedures. This equated to 2,559 scans per FTE machine.

Documentation of Diagnostic Imaging Modalities: St. Dominic submits that it currently offers a full range of diagnostic imaging modalities at the Jackson campus. These modalities include computed tomography (full body), ultrasound and conventional radiology. All of the named diagnostic imaging modalities are proposed to be provided at the Madison campus.

Accessibility: The applicant affirms that the facility at Madison will operate under the same policies and procedures governing patients access to services. No patient would be excluded from services because of race, color, age, sex, ethnicity, or ability to pay.

Staffing: St. Dominic states that its current Medical Director of Radiology at the Jackson campus will provide the same service at the Madison campus. The Medical Director is a full-time Board certified radiologist and has full knowledge of MRI. In addition, the applicant states that at least one full time MRI technologist-radiographer will be on site at the Madison facility and will be experienced in CT or other cross-sectional imaging methods, or will have equivalent training in MRI Spectroscopy.

Research Staffing: The applicant states that the mobile MRI equipment to be used at the Madison campus is not currently being used for experimental procedures and will not be used for experimental procedures at the Madison campus.

Recording of Data: The applicant affirms that it will keep the required data and make it available to the Department on request. In addition, the applicant states that it will maintain the source of payment for procedures and the total amounts charged during each fiscal year if such data is within the scope of the recording system to be utilized at the Madison campus.

Component IV: Obstetrical Services

St. Dominic is located in Perinatal Planning Area (PPA) V. The applicant states that the services will be managed and staffed in conjunction with the obstetrical unit at the Jackson campus. The same physician specialist groups will cover both locations. The facility currently offers family planning programs consistent with the ethical obligations of a Catholic hospital and maternal and child health education programs. The applicant also proposes to offer these programs at and through the Madison campus. The applicant states that the equipment specified for the project will allow it to provide basic perinatal services in accordance with the guidelines contained in the *Minimum Standards of Operation for Mississippi Hospitals*.

St. Dominic agreed in its application to provide an amount of care to Medicaid mothers and babies comparable to the average percentage offered by other providers in the area.

Need: The applicant states that increased market share alone will account for 93 deliveries between the Madison and Jackson campuses in the first year of operation and for 115 deliveries in the second year of operation. Need Criterion (1a) indicates

that the application shall demonstrate how the applicant can reasonably expect to deliver a minimum of 150 babies the first full year of operation and 250 babies by the second full year. St. Dominic's application fails to demonstrate this minimum and is therefore, not in compliance with this criterion.

Need Criterion (1b) was not analyzed as the 2009 State Health Plan does not contain sufficient information to make a determination of the optimum utilization rate of 60 percent.

Dedicated Obstetrical Beds: St. Dominic proposes to designate six licensed general acute care beds as dedicated obstetrical beds. These beds will be located in six LDRPs.

Type of Perinatal Services: The obstetrical service at the Madison campus is proposed to be a Basic perinatal service, as defined in the Plan.

Full-Time Nursing Staff: The applicant affirmed that it will provide full-time nursing staff in the labor and delivery area on all shifts. It also affirmed that these nursing personnel will be under the direct supervision of a qualified professional nurse.

Written Policies: St. Dominic submits that it currently has written policies delineating responsibility for immediate newborn care, resuscitation, selection and maintenance of necessary equipment, and training of personnel in proper techniques. These policies will apply to staff and equipment at the Madison campus.

Availability of Necessary Personnel: St. Dominic affirmed that it currently has the nurse, anesthesia, neonatal resuscitation, and obstetrical personnel required for emergency cesarean delivery available at all times at the Jackson campus. Anesthesia coverage for the Madison campus will be provided by Physicians Anesthesia Group, PA, the same anesthesia group that currently provides coverage.

Accessibility of Service to Rural and Urban Areas: The applicant affirmed that obstetrics services are available within 60 minutes driving time for 95 percent of rural area residents of PPA V and the St. Dominic Madison campus service area, and within 30 minutes of 96 percent of the urban area residents.

Protocols for the Transfer of Neonate: The applicant affirmed that St. Dominic has protocols for the transfer of the neonate in routine and emergency circumstances. The protocols cover transfers to St. Dominic from another facility and from St. Dominic to a higher level neonatal unit. These protocols will be adapted to the Madison campus as necessary. The applicant states that the transfers from the Madison campus will normally be to the Jackson campus unless the needs of the neonate require the services of University Medical Center.

Information Requirement: The applicant affirmed that it will record and maintain, at a minimum, the information specified in this criterion regarding charity care and care to the medically indigent and make it available to the MSDH within 15 business days of request.

Exclusion of Patients: The applicant affirmed that no policy or procedure at the Madison campus would exclude patients because of race, age, sex, ethnicity, or ability to pay.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual, Revised February 23, 2008*, addresses general criteria by which all CON applications are reviewed.

GR Criterion 1 – Consistency with the State Health Plan

The project is not consistent with the goals contained in the *FY 2009 State Health Plan*. St. Dominic proposes to relocate 71 acute care beds already in service at its Jackson campus to a satellite hospital to be constructed in Madison County. The statute allows the relocation of a health care facility or portion thereof. However, St. Dominic proposes to construct a 177,631 square foot facility at a cost of \$96,606,643 for a 65 bed unit and a 13,434 square foot unit at a cost of \$7,877,775 for 6 additional beds. The square footage requirements as well as capital expenditure involved are equivalent to or exceed the requirements for an acute care hospital. In accordance with the ruling in St. Dominic-Jackson Memorial Hospital v. Madison County Medical Center, 928 So.2d 822 (Miss. 2006), the applicable criterion for this project is the criterion for the establishment of a new general acute care hospital. The applicant is not in compliance with the need criterion in the *FY 2009 State Health Plan* for the establishment of a general acute care hospital.

GR Criterion 2 - Long Range Plan

The applicant states that St. Dominic has two long-range plans that bear on this application. The first is its Strategic Plan for the period 2007-2011. The second is its Master Facility Plan begun in 2007. The applicant's Master Facility Plan is an input to the Strategic Plan, which is formally adopted by the governing board. The applicant states that the most recent update to its Strategic Plan was adopted by the governing board on November 20, 2008.

St. Dominic states that it entered into a contract with Hammes Company to develop its Master Facility Plan. Hammes Company recommended that St. Dominic implement a Master Facility Plan that recommends or suggests the relocation of general acute care beds to a Madison campus.

GR Criterion 3 – Availability of Alternatives

St. Dominic states that the alternative approaches to this project that were considered were those developed through its Master Facility Plan. The applicant states that the factors considered in deciding between whether to place all general acute care services on the Jackson campus or to develop the Madison campus were as follows:

- Total capital expenditures required;
- Disruption of on-going health care services by Jackson campus construction;
- Distribution of population in the St. Dominic service area; and
- Ease of access to services for patients and physicians at its facility.

The applicant states that a decision on specific structures and the overall mix of approaches was based on a detailed analysis by Hammes Company relative to the age and functionality of each structure, construction costs, and the relative operational efficiencies that would result from modernization or new construction.

St. Dominic submits that the need analysis and volume projections indicate that all licensed general acute care beds will need to be placed in service by 2017 with no growth in market share. It believes that the Madison campus option has the additional benefit to the health care system of making basic community hospital services more accessible to residents of Madison County and adjacent counties, attracting more physicians to Madison County and providing competition to HMA in the suburban counties.

The applicant believes that no effective and less costly alternative for the proposed project is currently available in the area.

GR Criterion 4 - Economic Viability

Based on the three-year projected operating statement contained in the application, the applicant will realize a net loss of \$4,238,442 the first year, with net income of \$2,329,674 the second year and \$3,824,678 the third year of operation of the Madison County location.

- Proposed Charges:** According to the applicant, projected charges are based on current charges with escalation factors which are incorporated into the financial model. The Madison campus is expected to attract additional market share and patient discharges for the limited set of services (DRGs) it will routinely provide. The additional discharges will have a lower average acuity and will generate lower average charges, according to the applicant.
- Projected Levels of Utilization:** The utilization of St. Dominic for general acute care services is projected to increase from an average daily census (ADC) of 266 in 2007 to 289 in 2015 without the Madison campus and to an ADC of 301 in 2015 with the Madison campus. This will result in an

occupancy rate of 72.2 percent in 2015 with the proposed project. The applicant believes that the projected levels of utilization are consistent with the need level of the service area.

- c. **Project's Financial Feasibility Study:** The application contained a letter signed by the hospital's vice president of finance attesting to the financial feasibility of the project.

The applicant submits that St. Dominic has the financial strength to cover the costs incurred by the proposed project. It will also acquire financial support from its parent, St. Dominic Health Services, Inc., as necessary.

GR Criterion 5 - Need for the Project

- a. **Access by Population Served:** The applicant states that the population of GHSA 3 is growing and aging and will consume larger volumes of health care services in the future. If capital expenditures are not made by St. Dominic and others, the applicant believes that all residents of the service area will ultimately experience lower quality health services and have more difficulty in accessing those services. The applicant states that the medically underserved segments of the population may be the ones most shortchanged if GHSA 3 does not continue to invest in its hospitals.
- b. **Relocation of Services:** The applicant submits that the proposed project will relocate 71 general acute care beds to the Madison campus. No beds will be removed from GHSA 3. In addition, the applicant states because of the care with which the proposed project has been designed, the ability of those who currently rely on the Jackson campus for needed health care will not be disadvantaged in any way. The applicant also submits that no services will be relocated. The project seeks approval for a new obstetrical service with no change in the obstetrical service at the Jackson campus. It also seeks approval of mobile MRI service at the Madison campus. The applicant believes that the reduction in patient volumes at Jackson will allow more efficient and less disruptive staging of renovation and replacement of existing space on that campus as called for in its Master Facility Plan.
- c. **Probable Effect on Existing Facilities in the Area:** The applicant believes that the project will have no material adverse financial impact on any hospital in GHSA 3 in terms of the hospital's ability to deliver services to medically underserved groups or to maintain 2007 levels of operations. Specifically, it does not believe the development of a Madison campus will have a material adverse financial impact on the ability of Madison County Medical Center to construct its replacement hospital.
- d. **Community Reaction:** The application contains 22 letters from physicians and others, along with a petition in support of the project.

A letter of opposition was received from Madison County Medical Center, Canton.

GR Criterion 6 - Access to the Facility or Service

- a. Medically Underserved Population:** St. Dominic submits that it makes its services available to all patients regardless of ability to pay. The Madison campus will follow the same patient access policies and procedures as the Jackson campus.
- b. Performance in Meeting Federal Obligations:** The applicant submits that St. Dominic has no obligations under any federal regulations requiring uncompensated care, community service, or access by minority/handicapped persons.
- c. Unmet Needs to be Served by Applicant:** St. Dominic is a Medicare and Medicaid provider. The applicant reports that in 2006, 1.9%, and in 2007 2.3% of its gross patient charges resulted in uncompensated care. The applicant states that it does not distinguish between medically indigent care and charity care.

GR Criterion 7 - Information Requirement

St. Dominic affirmed that it will record and maintain the information required by this criterion and make it available to the Mississippi State Department of Health within 15 business days of request.

GR Criterion 8 - Relationship to Existing Health Care System

There are approximately 22 acute care facilities located within GHSA 3. St. Dominic states that each of these providers has its own service area based on patient origin and they vary greatly in size. It further states that there are existing providers for all services proposed at the Madison campus because St. Dominic itself currently provides these services. However, the applicant believes that as the population in Madison County increases and ages, it will require an increasing quantity of these services and additional capital expenditures will be required to provide that capacity.

St. Dominic submits that the need for general acute care hospital services, obstetrical services and MRI services will constantly grow as the population of GHSA 3 grows and ages. It further submits that these services are now concentrated in Hinds County even though the population of GHSA 3 is shifting away from Hinds and towards Madison and Rankin counties.

If the project is not approved, St. Dominic states it will be left with the alternative of meeting future service demands by expanding and renovating the Jackson campus, which requires higher capital expenditures to achieve the same capacity, and concentrating all construction activities at the Jackson campus will be more disruptive to hospital operations and reduce patient and physicians satisfaction.

According to Map Quest, the proposed location is approximately 6 to 7 miles from the approved new location of Madison County Medical Center.

GR Criterion 9 - Availability of Resources

As previously stated, St. Dominic indicates that 350 FTE personnel will be required to staff the proposed project at an estimated annual cost of \$2,421,309 the first year.

St. Dominic states that staffing for the Jackson and Madison campuses will be managed on a consolidated basis. The facilities are in the same market and while all personnel will have a primary duty station at one campus, St. Dominic plans to assign staff to each campus based on patient volume as necessary.

The applicant submits that the increased staffing in 2013 is primarily due to the projected increase in volume of patients and services. The separate Madison campus accounts for very little of the staffing increase.

GR Criterion 10 – Relationship to Ancillary or Support Services

The applicant states that St. Dominic currently produces or purchases all ancillary and support services necessary to operate a tertiary hospital. All ancillary and support services needed at the Madison campus for the subset of current services to be provided there are thus available, according to the applicant. The applicant does not expect any changes in costs or charges for ancillary or support services as a result of the project.

GR Criterion 14 - Construction Projects

The application contains schematic drawings and site plan of the proposed facility. The applicant submits that the project's square footage, excluding the MOB, is 191,065 for 71 acute care beds. This amounts to 2,691 square feet per bed. According to the applicant, the project architect advises that community hospitals in the range of 50-75 beds generally have between 2,300 and 3,333 square feet per bed.

The application contains a cost estimate prepared by Barlow, Eddy, Jenkins, P.A. and a schematic drawing of the proposed construction project.

The facility will consist of 251,065 square feet of new construction. Approximately 177,631 square feet (71%) will be allocated to the hospital at a cost of \$410.51 per sq. ft; 24% will be allocated to the MOB at \$283.94 per sq. ft., and the remaining

13,434 square feet will be allocated to the Labor and Delivery Unit at \$377.70 per square foot (See Attachment 2 for a complete breakdown of the project's square footage and cost). The cost per square foot of new hospital construction in this project exceeds the cost level where 75% of projects cost less (\$300/sq. ft.) for projects surveyed in the *Means Building Construction Cost Data, 2009 Edition*. This project exceeds the high range for construction listed in this publication. The project also exceeds the cost of the most recent replacement project approved by the Department – Highland Community Hospital, Picayune, a 95-bed replacement project, capital expenditure: \$75,829,000; cost per square foot: \$355.

The Means Data, 2009, lists construction costs for medical offices at a median of \$138, and a range of \$112 (where 25% of projects cost less) and \$169 (where 25% of projects cost more). The applicant's projected cost per square foot of its medical office building of \$284 per square foot is above the high cost for medical office buildings listed in the publication.

GR Criterion 16 - Quality of Care

St. Dominic-Jackson Memorial Hospital is in compliance with the *Minimum Standards for the Operation of Mississippi Hospitals*, according to the Division of Health Facilities Licensure and Certification, MSDH. The facility is accredited by the Joint Commission on Accreditation of Health Care Organizations.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

The total estimated capital expenditure is allocated as follows:

Cost Item	Projected Cost	Percent
Construction Cost – New	\$64,723,231	53.2%
Fixed Equipment	11,112,806	9.1%
Non-Fixed Equipment	21,744,609	17.9%
Land Cost	4,251,784	3.5%
Site Preparation	6,140,563	5.1%
Fees (Architectural, Consultant, etc.)	4,302,501	3.5%
Contingency Reserve	3,236,162	2.7%
Capitalized Interest	5,569,040	4.6%
Other	510,000	0.4%
Total	\$121,590,696	100.0%

The above capital expenditure is proposed for a 71-bed satellite campus of St. Dominic to be constructed in Madison County. The facility will consist of 251,065 square feet of new construction. Approximately 177,631 square feet (71%) will be allocated to the hospital at a cost of \$410.51 per sq. ft; 24% will be allocated to the MOB at \$283.94 per sq. ft. and the remaining 13,434 square feet will be allocated to the Labor and Delivery Unit at \$377.70 per square foot

The applicant submits that most of the equipment will be purchased in 2012; an escalation factor of 1.50% per year for four years has been applied.

B. Method of Financing

St. Dominic proposes to finance \$116,021,654 of the capital expenditure with tax exempt bonds at 6% interest over a period of 30 years. The remainder of the project will be financed by cash reserves.

C. Effect on Operating Cost

The Three-Year Projected Operating Statement is presented in Attachment 1 of this staff analysis.

D. Cost to Medicaid/Medicare

Based on revenue source projections presented in the application, the effect of the project on third party payers is as follows:

Payer Mix	Utilization Percentage	First Year Revenue
Medicaid	8.0	\$ 2,120,260
Medicare	53.0	14,046,724
Other	39.0	10,336,268
Total	100.0	\$ 26,503,252

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application for review and comment. The Division of Medicaid opposes this project.

VI. CONCLUSION AND RECOMMENDATION

This project is not in substantial compliance with the criteria and standards for the construction of a general acute care hospital as contained in the *FY 2009 State Health Plan*; the *Mississippi Certificate of Need Review Manual, Revised February 23, 2008*; and duly adopted rules, procedures and plans of the Mississippi State Department of Health.

St. Dominic proposes to relocate 71 acute care beds already in service at its Jackson campus to a satellite hospital to be constructed in Madison County. Although the statute allows the relocation of a health care facility or portion thereof, the applicant admits that no services will be eliminated or reduced at the Jackson campus. Therefore, the project was reviewed as the construction of an acute care facility in Madison County. The methodology set out in the *2009 State Health Plan* for determining need for a hospital in a county with an existing hospital does not support the addition of a new hospital.

The *Mississippi Certificate of Need Review Manual*, Revised February 23, 2008, states that no CON shall be issued unless the action proposed in the application for such certificate has been reviewed for consistency with the specifications and criteria established by the Department and substantially complies with the projection of need as reported in the State Health Plan which is in effect at the time the application is received by the Department.

Consequently, the Division of Health Planning and Resource Development recommends disapproval of this application submitted by St. Dominic-Jackson Memorial Hospital for construction of a health care facility, to include 71 relocated acute care beds, and a medical office building in Madison County.

Attachment 1

St. Dominic-Jackson Memorial Hospital-Madison Campus
 Three-Year Operating Statement

	Year 1	Year 2	Year 3
Revenue			
Patient Revenue:			
Inpatient	\$ 13,890,534	\$17,983,104	\$ 21,469,510
Outpatient	12,612,718	17,095,587	21,310,831
Gross Patient Care Revenue	<u>\$ 26,503,252</u>	<u>\$ 35,078,691</u>	<u>42,780,341</u>
Charity Care	(611,899)	(809,863)	(987,653)
Deductions from Revenue	(15,878,007)	(21,338,852)	(25,567,292)
Net Patient Care Revenue	\$ 10,013,346	\$ 12,929,976	\$ 16,225,396
Other Operating Revenue	(239,552)	298,942	301,335
Total Operating Revenue	\$ 9,773,794	\$ 13,228,918	\$ 16,526,731
Operating Expenses			
Salaries	\$ 2,421,309	\$ 3,492,631	\$ 6,644,519
Benefits	520,494	750,790	1,428,332
Supplies	2,157,892	2,786,077	3,479,858
Services	2,573,260	981,954	1,064,622
Lease			
Depreciation	4,585,107	1,671,896	(1,273,930)
Interest	475,810	(468,035)	(696,047)
Other	1,278,364	1,683,932	2,054,698
Total Operating Expenses	<u>\$ 14,012,236</u>	<u>\$ 10,899,245</u>	<u>\$ 12,702,052</u>
Net Operating Income (Loss)	<u>\$ (4,238,442)</u>	<u>\$ 2,329,673</u>	<u>\$ 3,824,679</u>
Assumptions			
Inpatient Days	2,870	3,539	4,225
Outpatient Days	4,013	5,180	6,457
Charge per outpatient day	\$ 3,143	\$ 3,300	\$ 3,300
Charge per inpatient day	\$ 4,840	\$ 5,081	\$ 5,082
Cost per inpatient day	\$ 4,882	\$ 3,080	\$ 3,006
Cost per outpatient day	\$ 3,492	\$ 2,104	\$ 1,967

**Attachment 2
St. Dominic-Jackson Madison Campus
Computation of Construction Cost**

<u>Cost Component</u>	<u>Total</u>	<u>Hospital</u>	<u>MOB</u>	<u>Mobile MRI</u>	<u>L&D Unit</u>
New Construction Cost	\$64,723,231	\$46,926,650	\$13,908,038	\$40,583	\$3,847,960
Renovation Cost			\$0		
Total Fixed Equipment Cost	\$11,112,806	\$10,884,436			\$228,370
Total Non-Fixed Equipment Cost	\$21,744,609	\$18,919,712	\$21,151		\$2,803,746
Land Cost	\$4,251,784	\$4,251,784			
Site Preparation Cost	\$6,140,563	\$5,242,536	\$733,742		\$164,285
Fees (Architectural, Consultant, etc.)	\$4,302,501	\$3,100,461	\$917,788	\$4,050	\$280,202
Contingency Reserve	\$3,236,162	\$2,346,333	\$695,402	\$2,029	\$192,398
Capitalized Interest	\$5,569,040	\$4,424,732	\$781,254	\$2,240	\$360,814
Other	\$510,000	\$510,000			
Total Proposed Capital Expenditure	\$121,590,696	\$96,606,644	\$17,057,375	\$48,902	\$7,877,775

Square Footage	251,065	177,631	60,000	13,434
Allocation Percent		70.75%	23.90%	5.35%

Costs Less Land, Non-Fixed Eqt.	\$95,594,303	\$72,925,148	\$17,036,224	\$5,074,029
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Cost Per Square Foot	\$380.76	\$410.54	\$283.94	\$377.70
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Cost per Bed (n=71)	\$1,360,656.96
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